



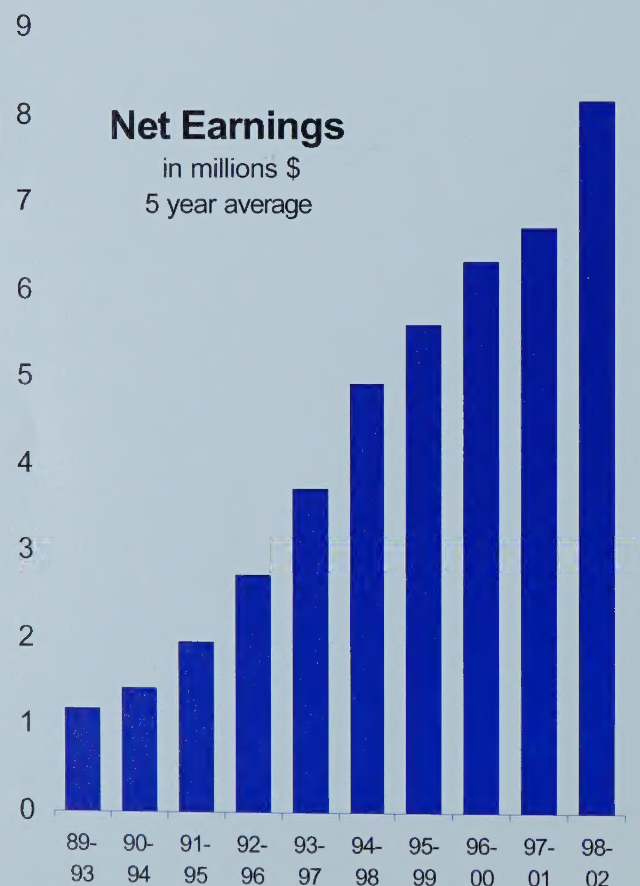
# 2002 ANNUAL REPORT

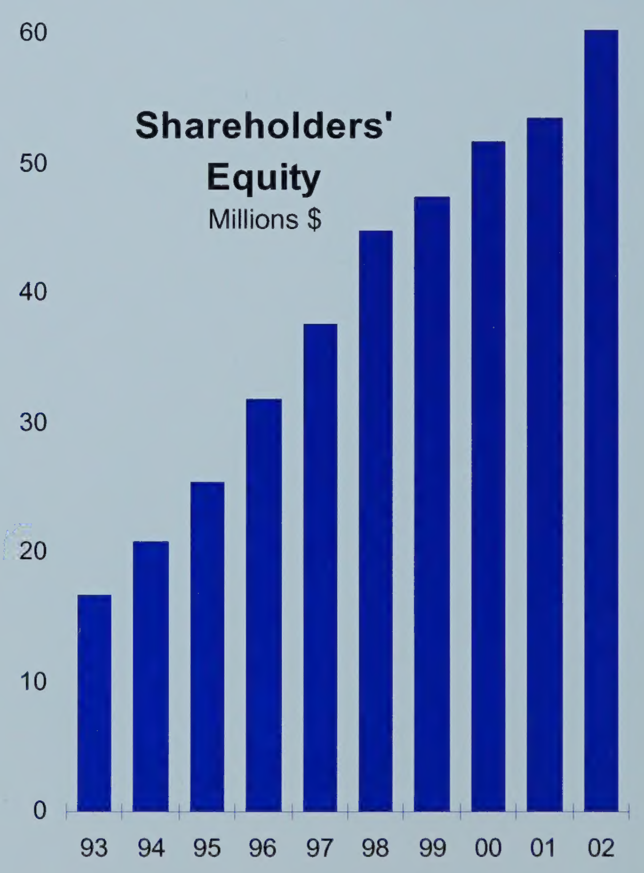
# bühler

# Ten Year Highlights

*In thousands of Canadian dollars (except per share amounts)*

| Year ended Sept. 30 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 33,583 | 48,040 | 56,575 | 66,517 | 85,375 | 89,194 | 79,961 | 116,700 | 187,633 | **232,619** |
| Gross profit | 8,273 | 13,052 | 16,522 | 21,288 | 27,060 | 29,243 | 26,207 | 30,302 | 31,410 | **49,485** |
| EBITDA | 3,193 | 5,848 | 8,593 | 11,709 | 15,668 | 17,595 | 14,488 | 15,882 | 14,518 | **26,202** |
| Shareholders equity | 16,647 | 20,702 | 25,317 | 31,811 | 37,497 | 44,790 | 47,327 | 51,659 | 53,442 | **61,998** |
| Capital expenditures-net | 969 | 9,369 | 7,884 | 9,552 | 12,253 | 5,917 | 5,960 | 17,278 | 3,593 | **14,546** |
| Number of employees | 315 | 400 | 450 | 525 | 600 | 600 | 600 | 1,000 | 700 | **800** |
| Earnings per share | 0.06 | 0.12 | 0.18 | 0.22 | 0.26 | 0.29 | 0.24 | 0.30 | 0.30 | **0.58** |
| Book value per share | 0.88 | 1.04 | 1.22 | 1.38 | 1.57 | 1.80 | 1.93 | 2.13 | 2.27 | **2.70** |
| Shares issued (millions) | 19.0 | 20.0 | 20.8 | 23.0 | 23.9 | 24.9 | 24.5 | 24.2 | 23.5 | **23.0** |
| Return on average capital | 10% | 11% | 18% | 19% | 24% | 26% | 18% | 14% | 8% | **18%** |
| Return on average equity | 7% | 13% | 16% | 18% | 18% | 17% | 13% | 15% | 13% | **23%** |




The Company has a record of 34 consecutive years of profit. With the exception of the annual dividends and retirement of shares, profit is invested in the modernization of facilities and equipment. Leaving most of the profit in the Company provides ready cash for acquisition opportunities that usually arise toward the end of a lengthy depressed agricultural economy.

# To our Shareholders

Your company has now completed 34 consecutive years and 124 consecutive quarters of profit. We are proud of this accomplishment and will continue to operate the business in a conservative manner to extend this record. I would encourage you to read the MD&FA report written by Craig Engel, Chief Operating Officer.

Personally, I have become less active in the day-to-day operations. The enthusiasm of our management team has been a pleasure to observe. Their devotion to the Company can be seen in the very satisfactory bottom line results despite continuing weak industry conditions.

I am also pleased to report that we have increased dividends for the 10th consecutive year. Please refer to page 13 of this report to review the impressive ratios, especially the 23% return on equity, which is an all time high.

The Company continues to operate with no leases and there are no intangible assets recognized on the balance sheet.

We have been forecasting lower revenue and earnings for next year due to the end of the supply contract with Case New Holland (CNH). We expect earnings for next year to be less than this year.

The management team is very much aware of the challenges that lie ahead, but they have accepted the challenge and are prepared to meet or beat their objectives.

I am proud of our employees and their positive attitude. They have the right skills and the youthful energy that is required to make a company succeed in these difficult times. 60% of our employees are shareholders and they share in the excitement of the Company's growth and have a vested interest in providing long-term shareholder value. I would like to express to them my sincere thanks and congratulations for a job well done.

John Buhler,
*Chairman & CEO*

# Management Discussion & Financial Analysis

During 2002, our Company's management team was able to concentrate on the tasks at hand: designing, manufacturing and distributing powered and non-powered agricultural equipment throughout North America. With the distractions of labor disputes and severance negotiations behind us, we worked at preparing the Company for the future. Among the list of this year's achievements, we focused primarily on four goals:

- Expanding our most profitable line of equipment: Buhler, Farm King, Allied and Inland brands of non-powered, short line tractor attachments and grain augers;
- Beginning to establish a tractor dealership network, loyal to both our style of business and tractor products;
- Managing the production transition from CNH to Buhler branded tractors and;
- Pursuing acquisitions.

Together, we have made marked accomplishments in each of these areas.

## Continued Expansion:

Our long-standing Buhler, Allied, Farm King and Inland brands of products showed increased market penetration and strong profitability. Our loaders experienced a record year in sales. We have increased inventory levels to allow us to more easily attract additional market share. Our compact implement series of products also experienced a growing year, highlighted by our continued high volume of finishing mowers and strong growth in our rear blade series. Our redesigned grain auger has continued to realize increased sales. Due to the increased popularity of pulse crops, we have made the strategic decision to introduce a line of belt conveyors to complement our "back saver" series and conventional portable grain augers.

## Tractor Dealers:

In October 2001 (only 1 year ago), Buhler Versatile Inc. (BVI) made its' marketing début at a well-attended dealer open house. With no prior dealer direct sales to claim, BVI began selling into the market place through dealers for the first time. During 2002, we confirmed dealer contracts with over 100 dealers. They are eager to begin selling the only independently owned Canadian manufactured tractor line, which boasts high value and quality. We continue to add dealers dedicated to our style of business and are anxious to see the results of the 2002 fall selling season.

## Tractor Production:

During 2002, we felt we must strategically control the transition of tractor production from CNH branded product to Buhler branded product. Having a workforce we wanted to maintain, our focus was to plan this transition in such a way to maximize profit, minimize employee disruption and build an inventory of Buhler Versatile tractors to supply our new, but growing, dealership network. With these goals in mind, we began the transition in Q1 of 2002 and by the end of Q3, we had completed all CNH orders and were producing our own Versatile product, for distribution through our Versatile network of dealers. Now, as we begin to "stand on our own two feet" and with our reliance on CNH behind us, we are in control of our future. Although continued OEM business would provide easier sales, our interest was to depart from the OEM dependency and develop a dealer distribution system, which will provide our Company with more stable, long term growth and profitability. As we have forecasted for the past 3

quarters, this departure from the OEM business stream will result in decreased revenue, until our dealer direct relationships have matured.

## Acquisitions:

During 2002, we once again actively pursued acquisition opportunities, which compliment our existing Company.

In February 2002, we purchased the operating assets of Winnipeg Machine Works Ltd. This acquisition has allowed us to set up a machining facility to supply precision-machined components to both Buhler factories, as well as to other industries. We have relocated the operation from its' original facility into a larger 25,000 square foot facility. Currently, we are constructing a 30,000 square foot addition to accommodate future expansion. This will include a new CNC Flexible Manufacturing System of Horizontal Milling Centers to be delivered during Q3 of 2003.

In July 2002, we purchased the Fargo Manufacturing Plant and Service Parts Distribution Center of Alloway Industries L.L.C.: the now dissolved joint venture of Deere & Company and Woods Equipment Company. This acquisition allowed us to relocate some production from our busier short line factories, which were unable to concentrate on some smaller, but growing product lines. Fargo is able to focus on making these junior products more successful. As a result of the relocation of the smaller product lines, all products will now benefit from improved delivery times and production capacity. We will also establish a Service Parts distribution center to better service our growing US market.

In August 2002, we purchased the assets of BrekMar Industries Ltd. BrekMar was noted for the production of high quality Fiber Reinforced Plastic (FRP) components to the agriculture industry. Typical FRP components include tractor fenders and engine hoods. This acquisition was motivated by the vertical integration it provides, which allows us to control the cost, delivery and quality of a variety of FRP components to our tractor division and other agriculture equipment producers.

## Next Year:

I am confident we are prepared for the challenges ahead. Our tractor business is very new and vulnerable and will require close monitoring. As forecasted throughout 2002, the departure from the OEM tractor sales will result in decreased revenues while our dealership network grows and matures. We will also concentrate on continuing to grow our short line business with the slow and steady approach we have shown over the past many years.

We will maintain traditional R&D expenses to ensure our products are kept competitive in the market place, yet still uphold the price advantage and focus on **value**, not "bells and whistles".

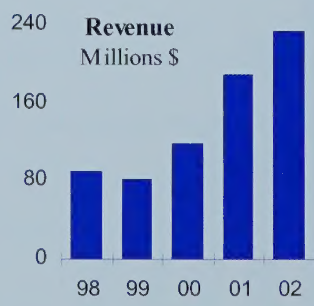
We will work to ensure that our plant efficiencies increase through continued investment in modern equipment and manufacturing practices. We remain committed to preserving our strong operating profits and balance sheet positions.

Craig Engel
*President & Chief Operating Officer*
*December 13, 2002*

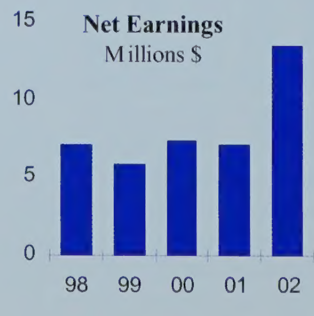

The above chart reflects the fact that earnings doubled for the 2nd & 3rd quarters while the 4th quarter returned to more normal levels. Earnings for 2003 are expected to be lower due to the fact we are no longer supplying tractors to CNH and we must rely solely on our dealer direct tractor sales.

## Sales and Growth

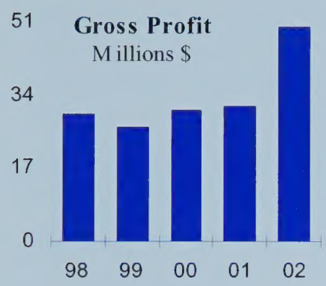
Revenue for year 2002 rose to $233 million, up from $188 million last year. Much of the improvement was a result of the doubling up effect of tractor sales. We commenced direct to dealer sales and at the same time CNH received approval from the Department of Justice to continue buying units from us. Sales of our short-line products also increased, resulting in better than anticipated revenue.



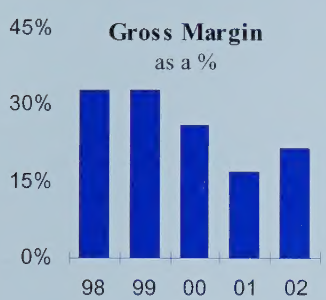

Earnings were $13.4 million, up from $7.1 million last year. Last year's earnings were low due to extra costs incurred as a result of the 9-month strike at the tractor factory. Next year's earnings will be lower than 2002, as our tractor sales return to more normal levels.



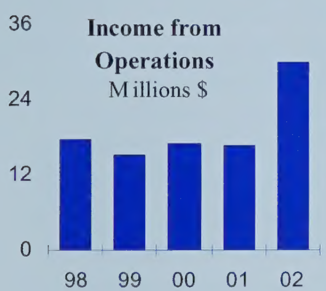
# Management Discussion & Financial Analysis




Gross profit increased by 59% to a record level of $49.5 million, almost double the 10 year average of $25.3 million. Although gross profit will be affected by next year's lower revenue, the gross margin percentage will be higher on direct to dealer sales.




Gross margin of 21.3% is an improvement over last year, but still far from the 10 year average of 27%. Gross margin percentage is expected to grow again next year as more of the revenue will be represented by short-line products, which carry a higher margin.

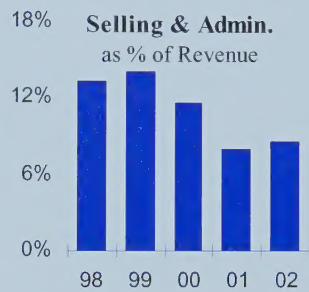



Income from operations of $29.7 million exceeded our expectations and is more than double our 10 year average of $14.4 million. This year's income from operations as a percentage of revenue is 12.8% up from 8.8% last year.

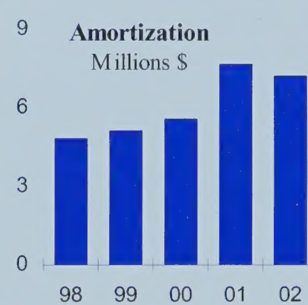

After many years of consistent increases in earnings per share, the Company experienced its' only decline in 1999. This decline came as a result of a very depressed farm economy and conditions have not improved much since that time. The costly nine month strike at the tractor factory contributed to the mediocre performance in fiscal 2001. Future earnings are expected to be lower than fiscal 2002 due to the continued uncertainty in the farm economy and the end of the CNH supply agreement.

## Quarterly Net Earnings Results

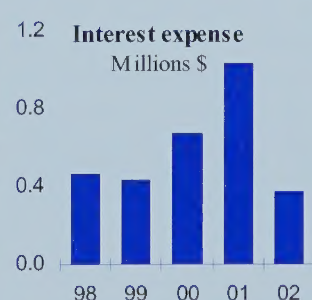
| *000's* | **2002** | 2001 | 2000 |
|---|---|---|---|
| 1st Quarter | **2,950** | 2,625 | 1,343 |
| 2nd Quarter | **3,831** | 1,258 | 1,200 |
| 3rd Quarter | **5,059** | 2,150 | 2,103 |
| 4th Quarter | **1,520** | 1,082 | 2,652 |



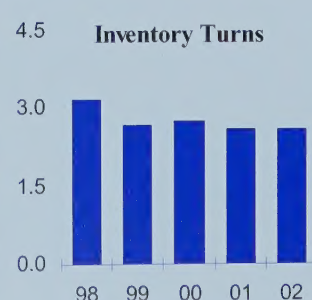

This years' SG&A expense as a percentage of revenue is slightly higher than last year due to costs relating to the labor settlement. We expect to maintain the expense at this level in the future.




Amortization expense reached $7.7 million last year and is expected to stay close to that level in the future, providing we continue to purchase new equipment. If we should curtail capital expenditures, this expense will become much lower, but long term earnings could be affected.

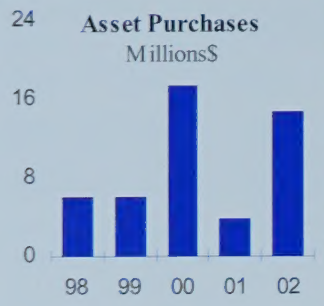



Lower bank prime and benefits of the interest free loan assumed from CNH brought interest expense to an all time low. It is expected that increased inventory levels will cause this expense to rise next year.

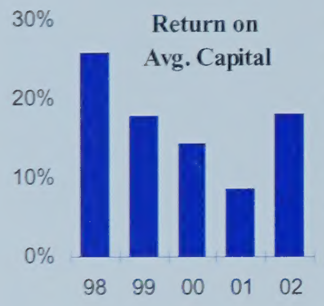



Inventory turns remain the same as last year's 2.6 times, still well below our 10 year average of 3.0 times. Management will continue to monitor this ratio and work diligently to get this ratio above 3. Turns are calculated by dividing the inventory by the cost of goods sold.

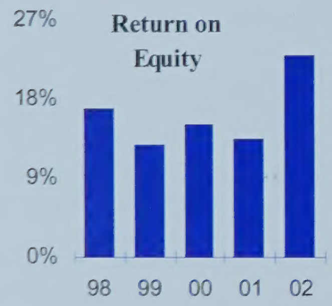
# Management Discussion & Financial Analysis



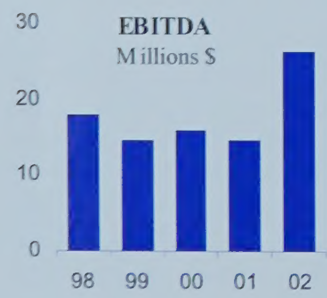

Over the past 10 years, the Company has purchased $87 million of capital assets. In an effort to ensure that equipment and facilities are constantly modernized, we replace older equipment and facilities as required.



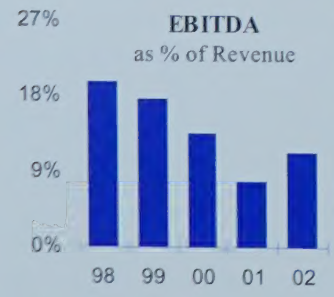

Return on capital of 18% is an improvement over last year's 8%. Future ROC should exceed our 10 year average of 16.8%. ROC is calculated by dividing the earnings before interest and taxes (EBIT) by the sum of bank debt, long term debt and shareholders' equity.




23% return on equity established a new record, but we do not expect to repeat this performance next year. The 10 year average is 15.4% and we expect to modestly exceed this percentage next year. Our goal remains at 20%.




EBITDA of $26.2 million is a new record and up from $14.5 million last year. This exceeded our prior forecast, however, it will be difficult to maintain this high level considering that revenue will be lower next year.




EBITDA as a percentage of revenue has improved to 11% from a low of 8%. It is unlikely that we will ever get back to the 20% level achieved in 1998, as the tractor sales carry a much lower margin.

## Corporate Governance

Complete governance details are described in the Annual Information Form and Proxy Circular.

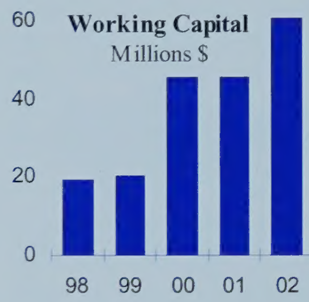
## Normal Course Issuers Bid

The Normal Course Issuers Bid expired on September 13th, 2002 and has not been renewed. 493,529 shares were purchased for cancellation during the last fiscal year.

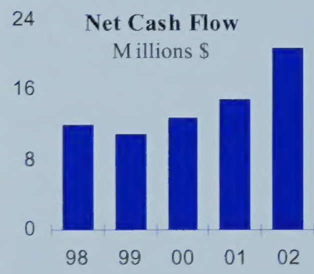
## Risks

Management considers fluctuations in commodity prices and fluctuations in the Canadian dollar to be a normal part of conducting business in this industry. The Company considers the degree of risk to be minimal. Going forward, as part of the Company's risk management, the Company will assume some risk in insuring some of its widely held assets.

## Liquidity

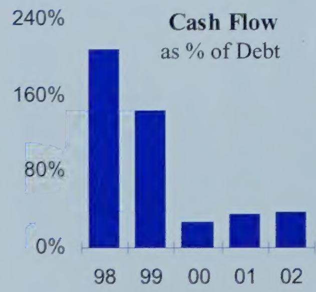



Working capital at year-end improved to $61 million. The long-term interest free debt contributes to this healthy number. A strong working capital position ensures that the Company will be able to pay bills promptly and have sufficient cash for future acquisitions.

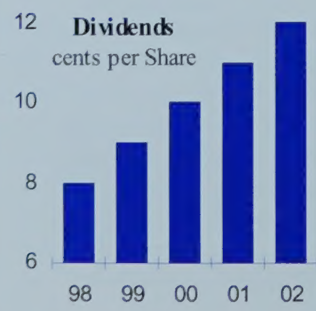



The Company produced a record cash flow of $20.7 million, up from $14.8 million last year.

Cash flow is the sum of net after tax earnings plus amortization.




For many years, we have been proud of the fact that one year's cash flow was sufficient to pay off the short and long term debt. In recent years this ratio has reduced to 36%, which means that it will require three years of cash flow to pay off all debt.




The Directors have declared an annual dividend of $0.12 payable on January 29, 2003 to shareholders of record on December 30, 2002. This is the 10th annual increase in dividends and the Company expects that dividend increases will continue.

# Management's Responsibility For the Financial Statements

The consolidated financial statements of Buhler Industries Inc. were prepared by management in accordance with accounting principles generally accepted in Canada applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Company, are described in note 1 to the financial statements. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgments, have been properly reflected. Management has established systems of internal control, which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board is responsible for reviewing the annual consolidated financial statements and reporting to the Board, making recommendations with respect to the appointment and remuneration of the Company's Auditors and reviewing the scope of the audit.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and maintains proper standards of conduct for its activities.

James H. Friesen
*Chief Financial Officer*
*December 13, 2002*

Larry Schroeder
*Vice President*

# Auditor's Report

To The Shareholders of Buhler Industries Inc.

We have audited the consolidated balance sheet of Buhler Industries Inc. as at September 30, 2002 and 2001 and the consolidated statement of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

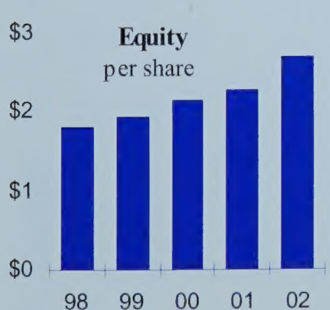
We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

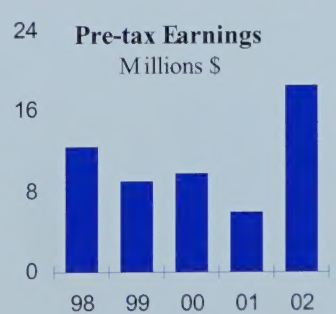
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

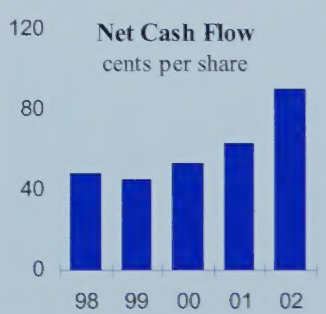
Winnipeg, Manitoba
*December 13, 2002*

Gislason Targownik Peters.

Gislason Targownik Peters
*Certified General Accountants*



# Consolidated Statements of Earnings

*For the years ended September 30 ($000's)*

| | 2002 | | 2001 | |
|---|---|---|---|---|
| **Revenue** | $ 232,619 | | $ 187,633 | |
| Cost of goods sold (note 16) | 183,134 | | 156,223 | |
| **Gross Profit** | 49,485 | 21.3% | 31,410 | 16.7% |
| Selling & administration expenses | 19,758 | 8.5% | 14,883 | 7.9% |
| **Income from Operations** | 29,727 | 12.8% | 16,527 | 8.8% |
| Gain on disposal of assets | (134) | | (733) | |
| Interest expense | 369 | | 1,032 | |
| Amortization | 7,339 | | 7,684 | |
| Research and development costs | 2,850 | | 1,895 | |
| Non-controlling interest | 809 | | 847 | |
| **Net earnings before Taxes** | 18,494 | 8.0% | 5,802 | 3.1% |
| Income Taxes (note 11) | 5,134 | | (1,313) | |
| **NET EARNINGS** | $ 13,360 | 5.7% | $ 7,115 | 3.8% |

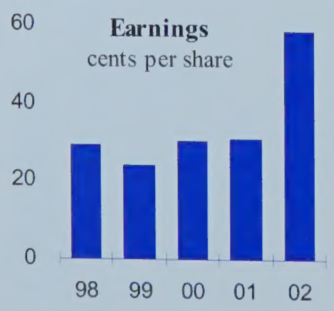
# Consolidated Statements of Retained Earnings

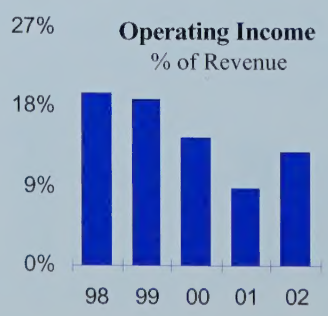
*For the years ended September 30 ($000's) except per share amounts*

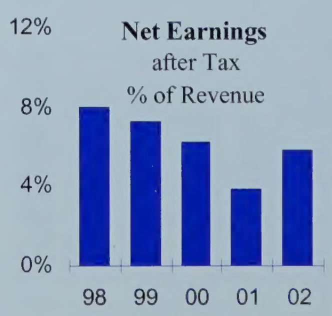
| | 2002 | 2001 |
|---|---|---|
| **Retained Earnings beginning of year** | $ 35,212 | $ 33,339 |
| Net earnings for the year | 13,360 | 7,115 |
| Dividends | (2,584) | (2,435) |
| Retirement of shares (note 10) | (1,870) | (2,807) |
| **Retained Earnings end of year** | $ 44,118 | $ 35,212 |

**Earnings per share** (note 13)

| | 2002 | 2001 |
|---|---|---|
| Basic | $ 0.58 | $ 0.30 |
| Fully diluted | $ 0.58 | $ 0.30 |



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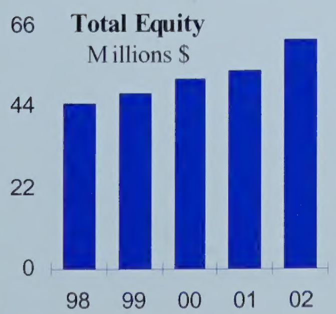
# Consolidated Balance Sheets

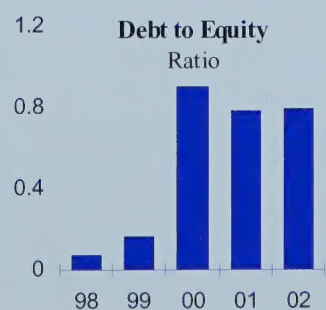
*For the years ended September 30 ($000's)*

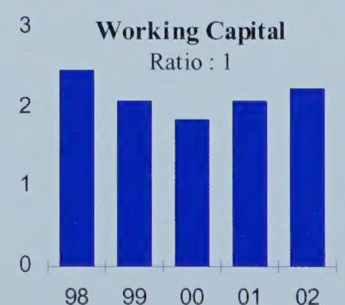
| | 2002 | 2001 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Accounts receivable | $ 39,188 | $ 26,746 |
| Inventories (note 2) | 70,361 | 60,179 |
| Prepaid expenses | 906 | 531 |
| **Total Current Assets** | 110,455 | 87,456 |
| Capital assets (note 3) | 43,916 | 37,372 |
| Future income taxes (note 11) | 1,780 | 2,661 |
| Investments - at cost | 154 | 42 |
| **Total Assets** | $ 156,305 | $ 127,531 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Bank indebtedness (note 4) | $ 14,258 | $ 9,939 |
| Account payable and accrued liabilities | 31,806 | 31,844 |
| Income taxes payable | 3,001 | - |
| Current portion of long term debt | 795 | - |
| **Total Current Liabilities** | 49,860 | 41,783 |
| Advances from related party (note 5) | 11,635 | 456 |
| Long term debt (note 7) | 31,055 | 31,850 |
| **Total Liabilities** | 92,550 | 74,089 |
| Non-controlling interest (note 8) | 1,757 | - |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (note 12) | 17,880 | 18,230 |
| Retained earnings | 44,118 | 35,212 |
| **Total Shareholders' Equity** | 61,998 | 53,442 |
| **Total Liabilities and Equity** | $ 156,305 | $ 127,531 |

*Approved on behalf of the Board:*

***Director:*** ***Director:***



# Consolidated Statement of Cash Flows

*For the years ended September 30 (000's)*

| | 2002 | 2001 |
|---|---|---|
| **Cash provided by (used in) operating activities** | | |
| Net earnings | $ 13,360 | $ 7,115 |
| Add (deduct) non-cash items | | |
| Amortization | 7,339 | 7,684 |
| Gain on disposal of assets | (134) | (733) |
| Gain on foreign exchange | (88) | (132) |
| Future income taxes | 881 | (3,506) |
| | 21,358 | 10,428 |
| Net change in non-cash working capital balances* | (20,037) | 2,025 |
| | 1,321 | 12,453 |
| **Investing activities** | | |
| Purchase of capital assets, net of investment tax credits | (14,546) | (3,593) |
| Proceeds on sale of capital assets | 799 | 1,335 |
| Investments | (112) | - |
| | (13,859) | (2,258) |
| **Financing activities** | | |
| Issuance of share capital | 34 | 742 |
| Retirement of shares | (2,255) | (3,639) |
| Increase in non-controlling interest | 1,757 | - |
| Advances (repayment) from related party | 11,179 | (2,894) |
| Dividends paid | (2,584) | (2,435) |
| | 8,131 | (8,226) |
| **Foreign exchange gain on cash held in foreign currency** | 88 | 132 |
| **Net cash provided (used) in the year** | (4,319) | 2,101 |
| **Bank indebtedness**, beginning of year | (9,939) | (12,040) |
| **Bank indebtedness**, end of year | $ (14,258) | $ (9,939) |

| | 2002 | 2001 |
|---|---|---|
| ***Net change in non-cash working capital balances is comprised of:** | | |
| Accounts receivable | $ (12,443) | 19,496 |
| Inventories | (10,182) | (7,333) |
| Prepaid expenses | (374) | 16 |
| Accounts payable and accrued liabilities | 2,962 | (10,154) |
| **Net cash provided (used)** | $ (20,037) | $ 2,025 |

# Notes to Consolidated Financial Statements

### 1. SIGNIFICANT ACCOUNTING POLICIES

***(a) Basis of consolidation***

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and all of its subsidiaries, including a 50% joint venture interest in Bradley Steel Processors Inc., which is accounted for using proportionate consolidation.

***(b) Inventories***

Inventories are stated at the lower of cost (first-in, first-out basis) and net realizable value. It is the Company's policy to record provisions for obsolete and slow moving inventory based on management estimates. These estimates are necessarily subject to a degree of measurement uncertainty.

***(c) Capital assets and amortization***

Capital assets are recorded at cost less accumulated amortization and related investment tax credits. Amortization is provided over the estimated useful lives using the following rates and methods:

| | | |
|---|---|---|
| Buildings | 4 to 5 % | Straight line |
| Equipment | 20 to 30% | Declining balance |
| Computers | 30% | Declining balance |
| Software and tools | 100% | Year acquired |

***(d) Foreign currency translation***

The accounts of the United States subsidiaries, which are considered integrated foreign operations, have been translated into Canadian dollars on the following basis:

1) monetary assets and monetary liabilities at the year-end rates of exchange;
2) non-monetary assets and related amortization at rates prevailing at dates of transactions;
3) revenue and expense items, other than amortization, at the average rate for year.

The resulting currency translation gains and losses are included in earnings.

***(e) Financial instruments***

*Foreign exchange and interest rate risk*

These are the risks to the Company's earnings that arise from fluctuations in interest rates and foreign exchange rates. The Company does not use any derivative financial instruments to reduce its exposure to interest rate or foreign exchange rate risk.

*Other risks*

The Company is exposed to credit risk on its accounts receivable. Going forward, as part of the Company's risk management, the Company will assume some risk in insuring some of its widely held assets.

*Fair value*

The carrying values of financial assets and financial liabilities are considered to approximate fair value unless otherwise disclosed.

### 2. INVENTORIES *(000's)*

| | **2002** | 2001 |
|---|---|---|
| Land for development | **$ 2,375** | $ 1,325 |
| Finished goods | **36,223** | 20,380 |
| Work in process | **10,642** | 10,083 |
| Raw materials | **21,121** | 28,391 |
| | **$ 70,361** | $ 60,179 |

### 3. CAPITAL ASSETS *(000's)*

| | Cost | Accum.Am | **2002 Net Book Value** | 2001 Net Book Value |
|---|---|---|---|---|
| Land | $ 4,912 | $ 0 | **$ 4,912** | $ 4,090 |
| Buildings | 29,963 | 8,989 | **20,974** | 17,324 |
| Equipment | 41,728 | 25,487 | **16,241** | 13,101 |
| Computers | 3,385 | 1,943 | **1,442** | 1,960 |
| Software & tools | 3,021 | 2,674 | **347** | 897 |
| | $ 83,009 | $ 39,093 | **$ 43,916** | $ 37,372 |

### 4. BANK INDEBTEDNESS

The Company has available a financing facility with the Bank of Montreal of $31,400,000. The credit facility is secured by a mortgage, debenture, general security agreement and assignment of receivables and inventory. All interest rates are at prime or less.

### 5. ADVANCES FROM RELATED PARTY

The advance from related party is from the majority shareholder, holding 68% of the shares of the Company. The advance is non-interest bearing with no specific terms of repayment. The advance fluctuates throughout the year and the shareholder reserves the right to charge interest at bank prime in the event that it becomes a permanent facility. The Company has provided a $5 million guarantee to the Bank of Montreal to secure a loan to the majority shareholder.

The Company has provided a letter of credit for $665k (2001 - $665k) to the Bank of Montreal to secure a line of credit for an entity in which the majority shareholder has a significant influence.

### 6. RELATED PARTY TRANSACTIONS

Included in these financial statements are the following related party transactions: accounts receivable of $120k (2001 - $58k) and revenue of $756k (2001 - $555k) from a company controlled by an immediate family member of management; revenue of $49k (2001 – $nil) from enterprises in which the majority shareholder has a significant influence; $345k (2001 - $1,413) for repairs and maintenance paid to an enterprise in which the majority shareholder has a significant influence; $455k (2001 - $515k) paid to the controlling shareholder for management services and $90k (2001 - $nil) paid to an immediate family member of the controlling shareholder. During the year, the Company acquired land and buildings from the majority shareholder for $2,922,900 as approved by the shareholders at the annual general meeting on February 3, 2002. $1,149,800 is recorded as land held for development and $1,773,100 is included in capital assets. During the year, the Company acquired from its majority shareholder, a loan receivable from an enterprise in which the majority shareholder has a significant influence for $7,884,700. This loan is secured by a mortgage on land and guarantees. The balance still owing of $7,581,000 is included in current accounts receivable.

All transactions with related parties are recorded at the exchange amount agreed to by the related parties.

### 7. LONG TERM DEBT *(000's)*

| | **2002** | 2001 |
|---|---|---|
| Industry Canada | **$ 31,850** | $ 31,850 |
| Current portion | **795** | 0 |
| Long term debt | **$ 31,055** | $ 31,850 |

The unsecured, interest free, Industry Canada loan is repayable in 120 equal monthly installments of $265,000 commencing July 31, 2003 and $3,180,000 is repayable annually over the next 5 years. In the event of default of any payment, the entire balance then outstanding shall, after the expiry of 30 days, bear interest and become due and payable in accordance with the Interest and Administrative Charges Regulations enacted pursuant to the Financial Administration Act of Canada.

### 8. NON-CONTROLLING INTEREST

During the 1999 fiscal year, Buhler Industries Inc. created a controlled manufacturing partnership operating as Buhler Manufacturing, through which a significant portion of the manufacturing activity is now conducted. The partnership was formed to optimize the organizational structure and efficiency of the Company.

The non-controlling interest represents a partner's interest in the assets, liabilities & income in the partnership. The partnership's financial activities have been accounted for by consolidation.

### 9. INTEREST PAID *(000's)*

| | **2002** | 2001 |
|---|---|---|
| Operating loan | **$ 393** | $ 1,032 |
| Long term debt | **0** | 0 |
| | **$ 393** | $ 1,032 |

### 10. RETIREMENT OF SHARES

The total cost of share retirement for 2002 was $2,253,000. Share capital was reduced by $383,000 to reflect the original cost of the shares and retained earnings was reduced by $1,870,000 to reflect the additional cost of retirement. A total of 493,529 shares were purchased through the Normal Course Issuers Bid.

### 11. INCOME TAXES *(000's)*

| | 2002 | 2001 |
|---|---|---|
| At Canadian statutory rate | **$ 6,119** | $ 2,785 |
| Losses utilized during the year | **(1,107)** | (613) |
| Manufacturing Profits deduction | **(753)** | (212) |
| Future taxes | | |
| Loss carry forward | **1,024** | (1,450) |
| Timing differences | **(143)** | (2,056) |
| Total future taxes | **881** | (3,506) |
| Other | **(6)** | 233 |
| Income tax provision | **$ 5,134** | $ (1,313) |

Loss Carried Forward & Tax Credits

The Company has non-capital loss carry forwards of $999 that are available to be applied against certain taxable income in future years. The potential tax benefits that will result from claiming these has been recognized. The losses carried forward expire as follows:

| Expiry date | Loss carried fwd. |
|---|---|
| 2004 | 11,000 |
| 2007 & thereafter | 988,000 |

### 12. CAPITAL STOCK AND OPTIONS *(000's)*

Authorized, an unlimited number of common shares.

| | **2002** No. of Shares | **$** | 2001 No. of Shares | $ |
|---|---|---|---|---|
| Issued as at Sept. 30 | **23,000** | **$17,880** | 23,483 | $18,230 |
| Options exercised & shares cancelled (net) | **(483)** | **$ (350)** | (742) | $ (90) |

There are no options outstanding as of September 30th, 2002.

### 13. EARNINGS PER SHARE

Earnings per share is calculated using a weighted average number of shares outstanding during the year.

### 14. DPSP & PENSION PLAN

In 1995, the Company established a Deferred Profit Sharing Plan for its employees. The Company contributes funds to the plan annually as determined by the Board of Directors, subject to certain maximum limits established by the plan. Contributions are used to purchase common shares of the Company for the employees from the plan trust. In 2002, the Company contributed $150,000 to the plan (2001-$200,000). The plan trust owns approximately 1.3 million Buhler shares.

Buhler Versatile Inc., a subsidiary of the Company, has a defined benefit pension plan covering certain former hourly paid employees. The Manitoba Pension Commission has approved the windup of this plan and includes the following amounts:

| | **Assets** | **Obligations** |
|---|---|---|
| October 1st, 2001 | $29,509,000 | $31,000,000 |
| Contributed. by the Company | 814,000 | |
| Benefits paid | (1,463,000) | (1,463.000) |
| Actuarial gains | | 3,770,000 |
| Return on plan assets | 2,761,000 | |
| September 30th, 2002 | $31,621,000 | $33,307,000 |

The assets of the plan consist of cash, equity instruments and bonds. The pension plan obligations are estimated by management to be $33,307,000 and the resulting $1,686,000 deficiency is recorded as a liability and a current expense in these financial statements. As a result of the union settlement, the assets and obligations of the plan will ultimately be transferred to a third party. Since September 30, 2002 approximately 50% of the pension obligations have been settled by way of transfer of plan assets. The balance of plan assets will be distributed by way of a third party annuity purchase during the 2nd quarter of 2003.

### 15. UNION SETTLEMENT

During the prior year, the Company settled an ongoing labor dispute with one of its unions. The settlement amount of $17.5 million has been included in the 2001 cost of goods sold.

### 16. SEGMENTED INFORMATION *(000's)*

The Company has organized its business between agricultural and non-agricultural operations due to the differences in the products and approaches in marketing and manufacturing in both segments. The agricultural equipment segment produces a wide variety of agricultural equipment, whereas the non-agricultural operations consist primarily of custom metal fabrication.

| | **2002** | | 2001 | |
|---|---|---|---|---|
| | **Canada** | **US** | Canada | US |
| Revenue | **$ 221,600** | **$ 11,000** | $ 185,600 | $ 2,000 |
| Earnings | **12,900** | **500** | 6,800 | 300 |
| Capital Assets | **38,400** | **5,500** | 35,800 | 1,500 |
| | **Ag** | **Non-Ag** | Ag | Non-Ag |
| Revenue | **$210,700** | **$ 21,900** | $ 181,600 | $ 6,000 |
| Interest revenue | **412** | **87** | 750 | 50 |
| Interest expense | **349** | **44** | 1,050 | 0 |
| Earnings | **11,200** | **1,200** | 6,400 | 700 |
| Assets | **150,000** | **6,300** | 121,500 | 6,000 |

Included in Canadian revenue are export sales, primarily to the United States, of $101 million (2001 - $51 million). The accounting policies of the segments are the same as described in the note for significant accounting policies. The Company accounts for inter-segment sales at current market prices. Revenue from the top two customers was $98 million and $11 million, both in the agricultural segments.

### 17. BUSINESS ACQUISITIONS

On August 30, 2002 the Company acquired the business assets of BrekMar Industries Ltd. in Saskatoon, Saskatchewan for a cash purchase price. The cost of the purchase and the allocation of the purchase price to each major class of asset has not been disclosed because confidentiality agreements prevent the disclosure of any further particulars.

# Ten Year Summary

| Year Ended September 30, | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | In thousands of Canadian dollars (except per share amounts) | | | | |
| **SUMMARY OF OPERATIONS** | | | | | | | | | | |
| Revenue | 33,583 | 48,040 | 56,575 | 66,517 | 85,375 | 89,194 | 79,961 | 116,700 | 187,633 | **232,619** |
| Cost of goods sold | 25,310 | 34,988 | 40,053 | 45,229 | 58,315 | 59,951 | 53,754 | 86,398 | 156,223 | **183,134** |
| Gross profit | 8,273 | 13,052 | 16,522 | 21,288 | 27,060 | 29,243 | 26,207 | 30,302 | 31,410 | **49,485** |
| Selling & admin. expense | 4,775 | 6,478 | 7,459 | 9,081 | 10,747 | 11,823 | 11,264 | 13,513 | 14,883 | **19,758** |
| Income from operations | 3,498 | 6,574 | 9,063 | 12,207 | 16,313 | 17,420 | 14,943 | 16,789 | 16,527 | **29,727** |
| Gain on sale of capital assets | - | - | - | - | - | (727) | (346) | (1,039) | (733) | **(134)** |
| Interest expense | 518 | 518 | 1,063 | 679 | 457 | 458 | 434 | 671 | 1,032 | **369** |
| Amortization | 940 | 2,416 | 2,727 | 3,685 | 4,809 | 4,808 | 5,126 | 5,520 | 7,684 | **7,339** |
| Research & development exp. | 305 | 726 | 470 | 498 | 645 | 552 | 577 | 1,043 | 1,895 | **2,850** |
| Non-controlling interest | - | - | - | - | - | - | 224 | 903 | 847 | **809** |
| Net Earnings before taxes | 1,735 | 2,914 | 4,803 | 7,345 | 10,402 | 12,329 | 8,928 | 9,691 | 5,802 | **18,494** |
| Income taxes | 593 | 493 | 1,100 | 2,212 | 4,271 | 5,216 | 3,131 | 2,393 | (1,313) | **5,134** |
| **NET EARNINGS** | **1,142** | **2,421** | **3,703** | **5,133** | **6,131** | **7,113** | **5,797** | **7,298** | **7,115** | **13,360** |
| **CASH FLOW SUMMARY** | | | | | | | | | | |
| Capital asset purchases | 969 | 9,369 | 7,884 | 9,552 | 12,253 | 5,917 | 5,960 | 17,278 | 3,593 | **14,546** |
| Long-term debt incurred | - | - | 2,587 | - | 1,201 | - | 2,417 | 31,656 | - | **-** |
| Reduction of long-term debt | 1,085 | 40 | - | 1,689 | - | 7,696 | - | - | 2,894 | **795** |
| Dividends | 10 | 623 | 832 | 1,097 | 1,432 | 1,703 | 1,992 | 2,209 | 2,435 | **2,584** |
| Net cash flow | 2,675 | 5,150 | 6,430 | 8,573 | 10,940 | 11,921 | 10,923 | 12,818 | 14,799 | **20,699** |
| Bank cash (indebtedness) | (1,646) | (3,713) | 365 | (1,576) | (2,724) | (2,348) | (4,043) | (12,040) | (9,939) | **(14,258)** |
| **BALANCE SHEET SUMMARY** | | | | | | | | | | |
| Acc'ts rec, cash & ppd. exp. | 5,768 | 7,912 | 8,616 | 13,386 | 12,352 | 12,996 | 13,793 | 46,789 | 27,277 | **40,094** |
| Inventory | 10,383 | 10,418 | 12,792 | 13,188 | 16,586 | 19,014 | 20,610 | 52,846 | 60,179 | **70,361** |
| Total current assets | 16,151 | 18,330 | 21,408 | 26,574 | 28,938 | 32,010 | 34,403 | 99,635 | 87,456 | **110,455** |
| Total assets | 27,683 | 36,622 | 44,180 | 54,341 | 60,716 | 61,139 | 74,843 | 149,073 | 127,531 | **156,305** |
| Total current liabilities | 4,484 | 9,588 | 9,731 | 16,108 | 16,131 | 13,004 | 14,195 | 54,038 | 42,239 | **49,860** |
| Total short and long term debt | 7,431 | 9,459 | 10,409 | 10,034 | 11,246 | 5,741 | 7,587 | 47,240 | 42,245 | **57,743** |
| Total liabilities | 11,036 | 15,920 | 18,863 | 22,530 | 23,219 | 16,349 | 27,516 | 97,414 | 74,089 | **94,307** |
| Total shareholders equity | 16,647 | 20,702 | 25,317 | 31,811 | 37,497 | 44,790 | 47,327 | 51,659 | 53,442 | **61,998** |
| Shares o/s (avg. in millions) | 19.0 | 20.0 | 20.8 | 23.0 | 23.9 | 24.9 | 24.5 | 24.2 | 23.5 | **23.0** |
| Working capital | 11,667 | 8,742 | 11,677 | 10,466 | 12,807 | 19,006 | 20,208 | 45,597 | 45,217 | **60,595** |
| **DATA PER COMMON SHARE** | | | | | | | | | | |
| Revenue | $ 1.77 | $ 2.40 | $ 2.72 | $ 2.89 | $ 3.57 | $ 3.57 | $ 3.27 | $ 4.82 | $ 7.98 | **$ 10.11** |
| EBITDA | 0.17 | 0.29 | 0.41 | 0.51 | 0.66 | 0.71 | 0.59 | 0.66 | 0.62 | **1.14** |
| EBIT | 0.12 | 0.17 | 0.28 | 0.35 | 0.45 | 0.51 | 0.38 | 0.43 | 0.29 | **0.82** |
| Net earnings | 0.06 | 0.12 | 0.18 | 0.22 | 0.26 | 0.29 | 0.24 | 0.30 | 0.30 | **0.58** |
| Cash flow | 0.14 | 0.26 | 0.31 | 0.37 | 0.46 | 0.48 | 0.45 | 0.53 | 0.63 | **0.90** |
| Dividends for year | 0.03 | 0.04 | 0.05 | 0.06 | 0.07 | 0.08 | 0.09 | 0.10 | 0.11 | **0.12** |
| Closing share price | 1.00 | 1.40 | 1.45 | 1.66 | 2.39 | 3.05 | 3.06 | 3.57 | 3.60 | **5.25** |
| Shareholders' equity | 0.88 | 1.04 | 1.22 | 1.38 | 1.57 | 1.80 | 1.93 | 2.13 | 2.27 | **2.70** |
| **STATISTICAL DATA** | | | | | | | | | | |
| Current ratio | 3.6 | 1.9 | 2.2 | 1.6 | 1.8 | 2.5 | 2.4 | 1.8 | 2.1 | **2.2** |
| Int. bearing debt to equity ratio | 0.4 | 0.5 | 0.3 | 0.3 | 0.3 | 0.1 | 0.1 | 0.2 | 0.2 | **0.2** |
| Number of shareholders | 250 | 650 | 1,000 | 1,350 | 1,600 | 1,700 | 1,700 | 1,600 | 1,600 | **1,600** |
| Inventory turnover | 2.4 | 3.4 | 3.1 | 3.4 | 3.5 | 3.2 | 2.7 | 2.8 | 2.6 | **2.6** |
| Gross margin (% of revenue) | 25% | 27% | 29% | 32% | 32% | 33% | 33% | 26% | 17% | **21%** |
| SG&A (% of revenue) | 14% | 13% | 13% | 14% | 13% | 13% | 14% | 12% | 8% | **8%** |
| EBITDA (% of revenue) | 10% | 12% | 15% | 18% | 18% | 20% | 18% | 14% | 8% | **11%** |
| Net earnings (% of revenue) | 3% | 5% | 7% | 8% | 7% | 8% | 7% | 6% | 4% | **6%** |
| Return on average capital | 9% | 13% | 18% | 21% | 24% | 26% | 18% | 14% | 8% | **18%** |
| Return on average equity | 7% | 13% | 16% | 18% | 18% | 17% | 13% | 15% | 13% | **23%** |

## Company Profile

Buhler Industries Inc. was established in 1933 and operated as Standard Gas Engine Works until the founder, Mr. Adolf Krushel, sold the Company to John Buhler in 1969. The Company has since grown to become a significant player in the farm equipment industry.

Today, the Company operates 10 modern manufacturing plants and seven distribution centres totaling over 1.5 million square feet of facilities and employing over 800 people. The Company remains strongly committed to its core business as a manufacturer of a wide range of agricultural equipment marketed throughout North America under the brand names: "Buhler", "Allied", "Farm King", "Inland" and "Buhler Versatile".

In 2000 the Company purchased the only tractor manufacturing plant in Canada. Ranging from 145 hp to 425 hp, the tractors became the perfect compliment to the Company's long standing portfolio of short-line farming equipment, which includes grain augers, 3-point hitch attachments, front end loaders and haying equipment.

## Directory

**Audit Committee**

Philipp R. Ens, Chairman
Allan L.V. Stewart
James H. Friesen

**Legal Counsel**

Perlov Stewart Lincoln
One Lombard Place
Winnipeg, Manitoba

**Exchange Listing**

The shares of Buhler Industries Inc. are listed on the Toronto Stock Exchange and trading under the symbol "BUI".

**Corporate Banker**

Bank of Montreal
Winnipeg, Manitoba

**Cusip Number**

119 918 100

**Transfer Agent**

Computershare Investor Services Inc.
Winnipeg, Manitoba

**Corporate Office**

1201 Regent Avenue West,
Winnipeg, Manitoba, R2C 3B2
Ph: (204) 661-8711, Fax: (204) 654-2503
Web site: www.buhler.com

**Auditors**

Gislason Targownik Peters
Winnipeg, Manitoba

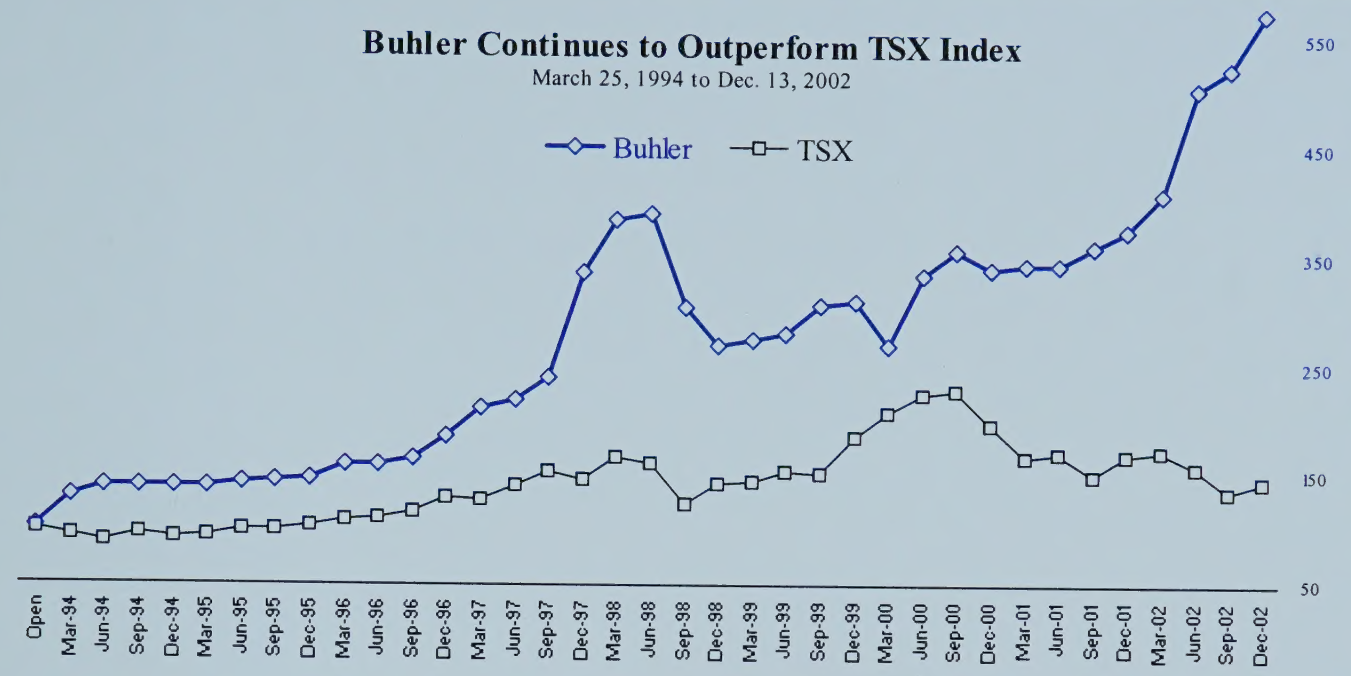
**Annual Meeting**

The annual meeting of shareholders will be held on Saturday, Feb. 8th, 2003, 11:00 am, at The Fairmont Hotel, Portage & Main, Winnipeg, Manitoba.

## Directors, Officers and Senior Management Team

| Name | Office | Principal Occupation |
|---|---|---|
| Buhler, John | Chairman/Officer | CEO, Buhler Industries Inc. |
| Buhler, Bonita Lesley | Director | Highland Park Financial Inc. |
| Ens, Philipp R. | Director | Chairman, Triple E Canada Inc. |
| Engel, Craig, P.Eng. | Director/Officer | President and COO, Buhler Industries Inc. |
| Friesen, James H., C.M.A. | Director/Officer | Secretary and CFO, Buhler Industries Inc. |
| Stewart, Allan, L. V. | Director | Lawyer, Perlov Stewart Lincoln |
| | | |
| Fillion, Jean-Guy, C.G.A. | Officer | Vice President, Buhler Industries Inc. |
| Schroeder, Larry David | Officer | Vice President Marketing, Buhler Industries Inc. |
| | | |
| Adolph, Grant, P. Eng. | Management | Operations Manager, Buhler Versatile Inc. |
| Allison, Eric | Management | Manager, OEM Division |
| Bergen, Helen, C.H.R.P. | Management | Manager, Human Resources, Buhler Industries Inc. |
| Gornik, Andrey, P. Eng. | Management | Operations Manager, Inland Division |
| Kneeshaw, Richard, C.I.M. | Management | Operations Manager, Morden Division |
| Lee, Min, I.S.M. | Management | CIO, Buhler Industries Inc. |

# Stock Data



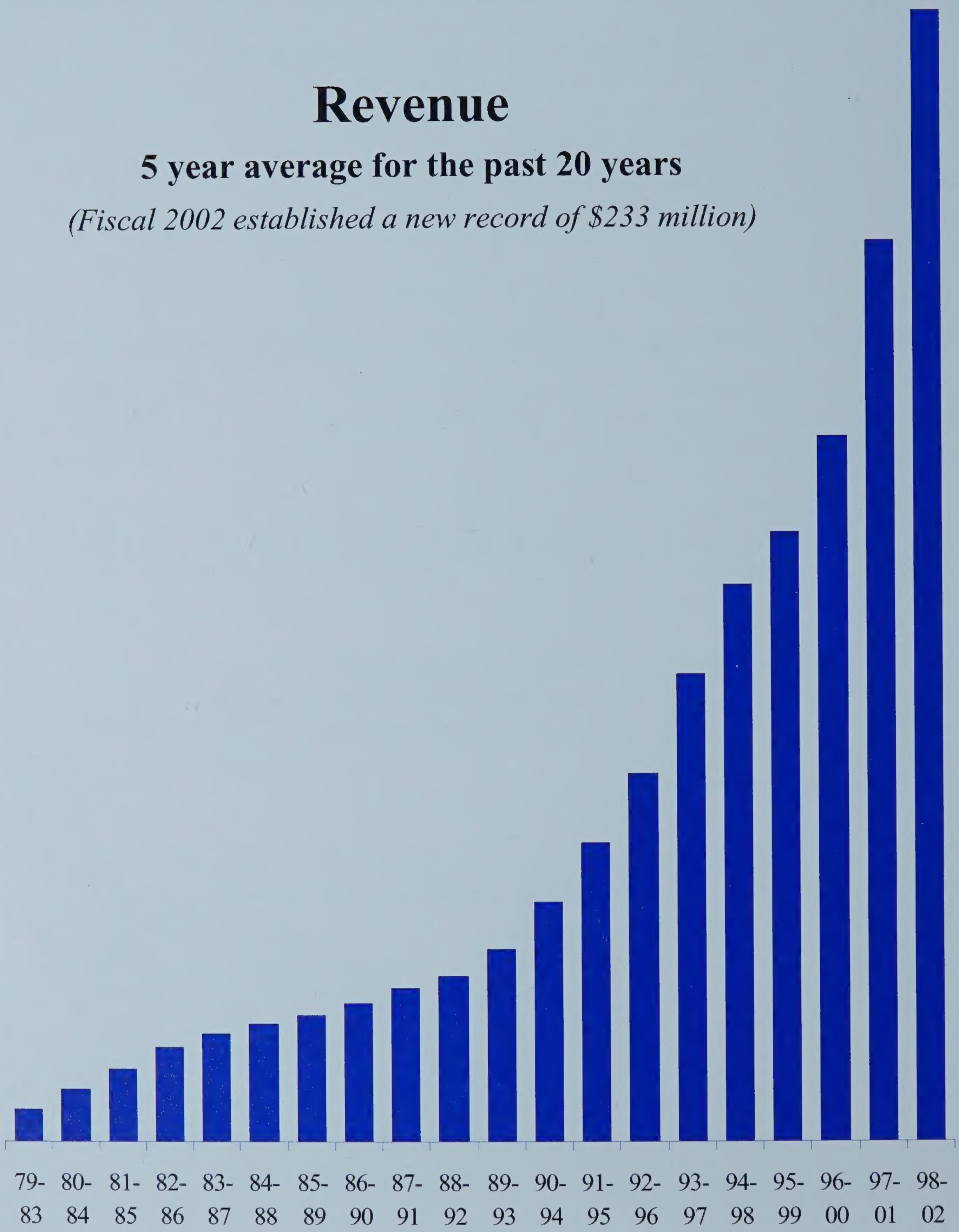


| **Year end Sept. 30** | **1994** | **1995** | **1996** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** |
|---|---|---|---|---|---|---|---|---|---|
| High | 2.10 | 1.60 | 1.98 | 2.54 | 4.25 | 3.25 | 3.74 | 3.75 | **5.50** |
| Low | 1.05 | 1.10 | 1.37 | 1.70 | 2.45 | 2.35 | 2.70 | 3.00 | **3.48** |
| Close | 1.40 | 1.45 | 1.66 | 2.39 | 3.05 | 3.06 | 3.57 | 3.60 | **5.25** |
| Trading Volume *(000's)* | 1,311 | 867 | 1,927 | 3,015 | 4,134 | 2,274 | 1,092 | 2,800 | **1,836** |

# Revenue

## 5 year average for the past 20 years

*(Fiscal 2002 established a new record of $233 million)*

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bühler